Ranking Republican, Senate Agriculture & Rural Economic Development Committee

June 6, 2006

Dear Friends,

Welcome to the first edition of the SRC Energy Update. The Energy Update will examine aspects of Washington's energy climate and new ideas regarding energy. It also will let readers know what proposals the Senate Republican Caucus is crafting to make our state "energy strong" and less dependent on energy sources from outside Washington.

At a time when drivers faced skyrocketing energy prices, Senate Republicans last September unveiled a comprehensive and thoughtful energy package to help steer Washington toward greater energy freedom and independence. (To see the 2006 SRC energy package, click here: http://www1.leg.wa.gov/documents/senate/src/2006Energy.pdf.)

Higher fuel and heating prices have alarmed all of us. However, today's energy challenges are helping open the door to new opportunities for energy development that could help make our state a bigger player in energy innovation and energy independence.

People in Washington are concerned about the future of energy and how it will affect them financially. That is why it is crucial for our state's elected leaders to find and support sensible and innovative solutions to improve Washington's energy outlook, both short-term and long-term. Senate Republicans continue to be deeply committed to this important issue.

In this issue of the SRC Energy Alert:

When will the biodiesel plant in Grays Harbor County help Washington farmers?

Last month, Imperium Renewables announced its plan to build what will likely be the nation's largest biodiesel refinery on a 12-acre piece of land owned by the Port of Grays Harbor between Aberdeen and Hoquiam. The company hopes by the end of next year to have the site producing 100 million gallons a year of biofuel.

There are pros and cons regarding this new biodiesel plant. It is encouraging to read that the $40 million plant would create 250 to 350 jobs during its construction, and is expected to create 50 permanent jobs once it is in operation. That would be great news to this part of Washington's coastal region, which has suffered high unemployment since the decline of the timber and fishing industries. Last year, Weyerhaeuser closed a large-log sawmill that resulted in 97 jobs lost, and the timber company plans to close its Cosmopolis pulp mill later this year, costing 245 jobs.

However, the creation of this biodiesel plant may hurt our state government's attempt to create a strong market for biodiesel made from crops grown in Washington. It would hurt this effort because the Grays Harbor plant would use mostly palm oil from Malaysia and soybean oil from other parts of America.

This was one of the main concerns that most Eastern Washington legislators and I had about the biodiesel mandate bill when it was passed by the Legislature and signed into law. It can be good for the state economy to create a climate that encourages the creation of biodiesel refineries and other facilities in Washington. But until there are sufficient incentives for more Washington farmers to grow enough feedstock for these refineries, most of the feedstock will come from out of state.

A recent News Tribune editorial about the Grays Harbor biodiesel plant summed up the situation well:

"The state's new biodiesel mandate is partly dependent on state officials determining if there is sufficient feedstock grown in Washington to meet the additional demand. This creates a Catch-22.

"If Imperium's use of imported feedstock acts to discourage in-state production of suitable crops, that could delay the implementation of the new mandate – thus defeating or limiting the effort to boost both Washington farmers and promote biodiesel use.

"Maybe this is what the Legislature gets for trying to manipulate the market forces."

Well said. Instead of using mandates to create a biodiesel market, the Legislature should look at creating a package of incentives and preferences for Washington farmers to focus on growing crops that can be turned into biodiesel.

Energy fact:

Europe leads the world in wind power, with almost 35,000 megawatts, equivalent to 35 large coal-fired power plants. North America remains a distant second, with just over 7,000 megawatts. *(National Geographic magazine, August 2005)*

Higher natural gas costs hurt agriculture

Eastern Washington's rural communities depend on family-run farms. Nearly 97 percent of our farms are family run and we must take action before they can no longer afford to practice farming. According to one of the Directors of Farm Credit Services, approximately ten farmers per county will stop farming this year – 40 percent because of equity and 60 percent because of refused loans.

Washington farmers have been hit especially hard by the increase in fuel and fertilizer prices. These higher costs hurt their bottom line and their ability to compete.

Due to skyrocketing natural gas prices, nitrogen fertilizer costs are expected to exceed $450 per ton through 2006 in most regions, which is 80 percent higher than the 2002 average.

We need to adopt common-sense solutions to this problem. First, we need to increase supply:

• **Drill.** The nation's natural gas problem is a self-imposed one. Opening Gulf of Mexico area 181 to drilling is a first big step toward a solution. http://www.heritage.org/Research/EnergyandEnvironment/wm1015.cfm.

• **Facilitate exploration.** Washington is attracting increasing natural gas exploration. We need to support this exploration and facilitate production in our state through regulatory certainty, timely permitting, and streamlined environmental review of natural gas production. http://www.gasandoil.com/goc/company/cnn61630.htm.

• **Use state and federal lands**. We have huge tracts of public land in Washington. DNR alone manages more than 5 *million* acres. Taking a cue from a Congressional Task Force on Affordable Natural Gas--see end of document below--we could propose the same solutions for our state lands. . http://energycommerce.house.gov/NaturalGasTaskForce/scripts/file.pl?file=reports/TFANG_findings_report_draft_Sept_30_2003.htm. More revenue from state trust lands is desperately needed to improve our schools.

Second, we need to manage demand. This means considering alternative sources. Relative to commercial fertilizer, manure becomes more economical as a nitrogen source when natural gas prices rise. This is because natural gas accounts for up to 90 percent of commercial fertilizer production costs. The price at which manure becomes cost competitive depends on many factors, such as the proximity to sources and the costs to obtain, transport and apply excess manure from dairies and animal feeding operations.

Tax relief for gas consumers?

The recent run-ups in energy prices have resulted in a windfall for government in taxes. Last session, the Legislature addressed this problem by passing a law that exempts the sales and use tax on diesel fuel used in farming. Perhaps it is worth exploring similar legislation for gasoline consumers.

Wind farms: a bunch of hot air, or excitement over a clean, renewable energy solution?

According to the Department of Energy, wind energy is the world's fastest-growing energy technology. One reason is the cost: Natural gas costs $60 to $70 a megawatt hour, coal runs $50 to $55, and Puget Sound Energy estimates that wind, when combined with a federal tax credit, will cost $45 a megawatt hour.

Here is how wind turbines work: They are very tall, often around 200 feet, with three blades. When the wind blows, the blades spin at more than 100 miles per hour. At top speed, generators rev up and send power to underground lines, on to a substation, and into homes and businesses.

Washington is getting in the game when it comes to wind energy. One problem that has prevented more wind farms from being built in Washington is siting. Some groups have opposed construction of wind farms in our state. Similar problems have surfaced in Massachusetts. Although we only have a few wind farms now, utilities in the Northwest say they want to acquire about 2,500 megawatts of wind power by 2010. Last month Puget Sound Energy (PSE) announced its intention to purchase the proposed Wild Horse Power Project near Ellensburg, making PSE the first Washington utility to buy a wind farm. According to PSE, one megawatt of wind power can serve 330 homes for a year. So the new PSE Wild Horse project alone could supply power to nearly 75,000 homes a year.

Today about 1 percent of megawatts produced in the Northwest comes from wind. But if all the proposed wind farm projects come on line, that figure could grow to 8 percent and serve more than a million homes a year. One thing that will make a big difference is the federal tax credit of $14 per megawatt hour of power produced. The credit just expired, but is up for renewal in Congress.

Energy fact:

Washington is a national leader in hydropower. Washington generates more hydropower energy than any other state in the nation: **21,464 megawatts**. The next closest state is California, at 10,364 megawatts. We are served by the largest coordinated hydro electrical system in the world. Nationally, just **6.5 percent** of the country's total electric generation comes from hydropower. In Washington, hydropower provides **73 percent** of our electric power.

Washington's alternative energy laws and incentives

The Department of Energy tracks all state laws, regulations and incentives regarding alternative energy. You can find Washington's info here:

http://www.eere.energy.gov/afdc/progs/state_summary.cgi?afdc/WA

Idaho might have a cellulosic ethanol plant; why not Washington?

Iogen, a Canadian biotech firm specializing in cellulosic ethanol, is considering building a $350 million factory next year in Canada or Idaho Falls, Idaho. Celluosic ethanol is fuel made from wood chips and farm waste such as straw, corn stalks and other inedible agricultural byproducts. Cellulose is woody material found in branches and stems. When you consider the large volume of discarded farm waste, branches and other unused timber produced in Washington, it is clear that our state has great potential to be a worthy site for a cellulosic ethanol plant.